




**Homeland
Security**

August 29, 2006

MEMORANDUM FOR: Karen E. Armes
Acting Regional Director
FEMA, Region IX

FROM: 
Robert J. Lastrico
Director, Grants Program Management Audit Division

SUBJECT: *Audit of the County of Contra Costa,
Martinez, California
Public Assistance Identification Number 013-00000
FEMA Disaster Number 1203-DR-CA
Audit Report Number DS-06-06*

The Office of Inspector General audited public assistance grant funds awarded to the County of Contra Costa, Martinez, California (County). The objective of the audit was to determine whether the County expended and accounted for Federal Emergency Management Agency (FEMA) funds according to federal regulations and FEMA guidelines.

The County received a public assistance grant award of \$2.2 million from the California Office of Emergency Services (OES), a FEMA grantee, for debris removal, emergency protective measures and permanent repairs to County facilities damaged as a result of the winter storms and flooding that occurred on February 2, 1998. The award provided 75 percent federal funding for 5 large projects and 43 small projects.¹ The audit covered the period February 2, 1998, to April 7, 2004, and included a review of four large and four small projects with a total award of \$1.7 million (see Exhibit A). In addition, we performed a limited scope review of the fringe benefits labor costs claimed by the County for all other projects.

We performed the audit under the authority of the Inspector General Act of 1978, as amended, and according to *Government Auditing Standards* issued by the Comptroller General of the United States. The audit included a review of FEMA, OES, and County records, a judgmental sample of project expenditures, and other auditing procedures considered necessary under the circumstances.

RESULTS OF AUDIT

We questioned \$45,008 of force account labor costs (FEMA share \$33,756) included in the County's claim. The questioned costs consisted of \$19,390 in excessive charges and \$25,618 in ineligible expenses.

¹ Federal regulations in effect at the time of the disaster set the large project threshold at \$47,100.

Finding A – Excessive Force Account Labor Costs

The County's claim included \$19,390 in excessive force account labor costs. In requesting FEMA reimbursement for various projects, the County claimed labor expenses that were higher than the actual costs accrued to the employees for salaries and fringe benefits. For the eight projects reviewed, excess charges totaled \$11,618 (Exhibit A). Because this was a systemic problem, we reviewed the force account labor costs claimed for all other projects, and identified an additional \$7,772 in excess charges (Exhibit B).

According to 44 CFR § 13.20(b), the County is required to follow Office of Management and Budget (OMB) cost principles, agency program regulations, and the terms of grant and subgrant agreements in determining reasonable costs, allowability, and allocability of costs. OMB Circular A-87, Attachment A, Section C.2 provides that a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person. The County was unable to explain the discrepancy between the force account labor amounts claimed and the amounts actually accrued to the employees. The County noted that it would review its methodology for computing the costs to ensure consistency in future claims.

Since the force account labor costs claimed by the County were excessive, we questioned the \$19,390 (\$11,618 and \$7,772). We have included small projects in the questioned amounts because FEMA increased funding for small projects as a result of the County's appeal for a Net Small Project Overrun.²

Finding B – Ineligible Force Account Labor Costs

The county's claim for two projects included \$25,618 in force account labor costs that were not eligible for federal reimbursement.

The claim for large project 07559 contained \$18,430 in force labor costs for work that was not related to the scope of the project. The costs pertained to a County environmental mitigation project that was completed at the same site of project 07559. The County agreed with our conclusion that the charges were not related to project 07559. The County explained that while FEMA had disallowed construction contract costs relating to the mitigation project, FEMA had not advised as to the eligibility of the associated labor costs; thus the expenses were included in the claim. According to 44 CFR § 206.223, to be eligible for financial assistance, an item of work must be required as a result of a major disaster event.

The claim for small project 07561 contained \$7,188 in force account labor charges for regular work hours applied to the project by County engineers. The scope of the work entailed debris removal (Category A). According to federal regulations, the regular-time salaries and benefits of a subgrantee's permanently employed personnel are not eligible for reimbursement for Category A projects [44 CFR 206.228(a)(4)]. The County disagreed with our conclusion and noted that it had followed FEMA's instructions for submitting the claim. The County stated that the \$7,188 was included in the Net Small Project Overrun (NSPO) claimed for the grant and believed that

² FEMA awarded the County an additional \$204,111 as a result of the net small project overrun.

the costs were therefore eligible. However, as stated earlier, the regular salaries and benefits are ineligible costs and cannot be included in NSPO claims.

Since the County's claim included costs not eligible for federal reimbursement, we question the \$25,618 claim under projects 07559 (\$18,430) and 07561 (\$7,188).

RECOMMENDATION

We recommend that the Acting Regional Director, FEMA Region IX, in coordination with OES disallow \$45,008 of questioned costs.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW UP

We discussed the results of this audit with County officials on July 6, 2006. County generally agreed with Finding A and did not agree with Finding B. We also notified OES and FEMA officials of the audit results on August 10, 2006.

Please advise this office by October 27, 2006, of actions taken to implement our recommendation. Should you have any questions concerning this report, please contact me at (510) 637-1482. Key contributors to this assignment were Humberto Melara, Ravi Anand, Apolinar Tulawan and Gloria Conner.

Schedule of Audited Projects
County of Contra Costa, California
Public Assistance Identification Number 013-00000
FEMA Disaster Number 1203-DR-CA

<i>Project Number</i>	<i>Amount Awarded</i>	<i>Questioned Costs</i>	<i>Finding Reference</i>
<i>Large</i>			
01021	\$ 174,854	\$ 0	
07562	279,511	813	A
07539	302,239	0	
07559	783,669	25,975	A, B
<i>Sub-total*</i>	<i>\$1,540,273</i>	<i>\$26,788</i>	
<i>Small</i>			
01022	\$ 100,877	\$ 2,509	A
07561	50,827	7,188	B
51422	28,102	444	A
51430	24,698	307	A
<i>Sub-total*</i>	<i>\$ 204,504</i>	<i>\$10,448</i>	
<i>Other Projects (Exhibit B)</i>	<i>275,911</i>	<i>7,772</i>	<i>A</i>
<i>Grand -Total</i>	<i><u>\$2,020, 688</u></i>	<i><u>\$ 45,008</u></i>	

* Amount audited - \$1,744,777 (\$1,540,273 + \$204,504)

Finding Reference Legend

A – Excessive Force Account Labor Costs

B – Ineligible Force Account Labor Costs

*Schedule of Other Projects Reviewed**
County of Contra Costa, California
Public Assistance Identification Number 013-00000
FEMA Disaster Number 1203-DR-CA

<i>Project Number</i>	<i>Amount Awarded</i>	<i>Questioned Costs</i>	<i>Finding Reference</i>
<i>Large</i>			
07596	\$ 50,714	\$ 561	A
<i>Small</i>			
01145	13,722	571	A
07554	46,720	476	A
07549	13,983	2,438	A
07580	13,937	196	A
07593	24,439	788	A
51423	5,286	281	A
51433	10,594	142	A
51434	5,065	141	A
51435	6,965	292	A
51439	17,855	396	A
51442	5,941	115	A
51443	8,147	177	A
51454	18,928	371	A
51455	8,578	299	A
52012	25,037	528	A
<i>Total</i>	<u>\$275,911</u>	<u>\$7,772</u>	

* Our review was limited to amounts claimed for force account labor.

Finding Reference Legend

A – Excessive Force Account Labor Costs